

Using the FDI: a UK Perspective

SME FDI Workshop
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BETTER
UNDERSTANDING



SME
FINANCING

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DATA INITIATIVE

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Ways to mine the data



1. **By location**
2. **By sector**
3. **By entrepreneur characteristics**
4. **Need international comparative data for context**
5. **Business angels**
6. **Other issues**

1. Location



- Open up access to economic geographers!
- Spatial variations in access to finance, use of finance, investment returns, etc. Are there regional equity gaps?
 - Regions, urban hierarchy, rural
 - UK focus on disadvantaged communities (ward level) where would-be entrepreneurs have little or no personal wealth or access to family wealth, or even access to debt finance
- Does the public sector 'crowd out' private sector supply?
- Nature and depth of supply in different locations: e.g. in UK the ratio of private to public VC is 10:1 in London while in the North West the ratio is 2:1 in favour of public VC funds
- Competence of 'public sector' VCs
- Enterprise and regional productivity

2. Sector



- UK interest in the creative industries;
- 8% of GDP, 2m employed, export-oriented, global market, fast-growing sector
- Composition
 - Creative services producers – e.g. architectural practices, design consultancies
 - Creative design producers – produce IP – e.g. film, TV, music
 - Creative experience providers – theatre, opera, dance, live music
 - Creative originals producers – artisans – e.g. crafts, visual arts, designer-makers
- The sector has difficulties in raising finance – intangible assets, quality of management issues, lack of understanding by lenders, investors, perceptions that it is not a business, etc.

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- Promoting creativity and design in business as a means of competing globally
 - Are design-intensive firms more successful? (Matched pairs research? Stock market performance)
- Connecting Richard Florida's notions of the creative class and talent to small business and entrepreneurship:
 - Entrepreneurship in creative cities
 - Migration (mobility) and entrepreneurship

Sector continued



- Financing innovation and technology-based new firms (TBNFs)
- Is mainstream funding suited to the funding needs of TBNFs? How to better support R&D investment in growing firms – improving the operation of the R&D tax credit
- Funding needs to commercialise university research
- Financing needs of social enterprise

3. Entrepreneurs



- Women entrepreneurs and access to finance
- Ethnic entrepreneurs and access to finance
- Encouragement of graduate entrepreneurs
- Habitual entrepreneurs – serial entrepreneurs and portfolio entrepreneurs

4. Other Finance Issues

- UK intervention still very much supply-oriented and based on the assumption of the existence of supply gap
 - Enterprise Capital Funds (investing up to £2m per company)
 - Raising tax incentives on VCTs to 30%
 - Raising the EIS annual limit to £400,000
 - Encouraging greater take-up of SFLGS
 - Extending R&D tax credits to firms with 251-500 employees (Budget 2006)
- Investment readiness
 - Are finance gaps caused by supply or demand side factors?
 - How to address investment readiness? Should the focus be on the entrepreneur or the advisors?
 - Is investor competence an issue?

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- “The original business plan is not the one which is ultimately funded” (Scottish angel/public VC) – understanding the process of raising finance
- Economic impact of private equity
 - Effect of debt levels
 - Rationalisations
 - Consolidations/roll-ups

5. Business Angels



- Better data sources – size of market, investment trends
- Confusing effects of GEM – ‘informal investment’ vs. business angel investing
- Longitudinal methodologies – both investor and firm as units of analysis
- ‘relay race’ metaphor: can it be broken down? Implications?
- Should governments encourage more business angels?
 - Insufficient wealth to achieve diversified portfolio; early panic
 - Competence
 - Value of ‘dumb money’?
 - Availability of opportunities
- Should more women be encouraged to become business angels?

Business Angels II



- Effectiveness of tax incentives
 - Low additionality
 - Attracts 'dumb' money
 - Poor investment decisions
 - Effectiveness influenced by external environment (e.g. capital gains)
- How distinctive are angels (who is the comparator?)
- Capturing the nature and impact of the hands-on involvement of business angels
- Investment returns
 - Need recent data on returns
 - Most successful types of investments?
 - Who are the most successful investors?

Business Angels III



- What support do business angels want/need?
- Are Business Angel Networks still needed? How can they be enhanced? What should they be doing?
- Effectiveness of investment readiness activities
- Effectiveness of 'angel academies'
- Effect of move of angel market towards syndication: (i) the equity gap; (ii) the solo business angel?

6. Other Issues



- Regulation/‘red tape’: benefits vs. stifling effects – strive to better regulation
- Churn rates – is there an optimum rate?
- Measuring small business
 - Quasi employees? In UK 2.2m have no employees
 - Part-time businesses? 1.3m (over one-third) are in real estate, renting activities
 - Home-based business
 - Concern about tax motivated incorporations
 - Concern about lack of high quality start-ups, growth ambitions
 - How significant are these ‘businesses’ – can government be selectively pro-enterprise?

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- Risk/marginality of small business owners – how much of their household wealth is committed and at risk?
- Shortages of skilled labour – growth constraints?
- National Minimum Wage - £5.05 an hour, proposed to rise to £5.35 in October. Recent rises above inflation. Regional dimension?